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TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES, MEASURES TO BE TAKEN BY DEVELOPING AND DEVELOPED COUNTRIES, INCLUDING REGIONAL, SUB-REGIONAL AND INTER-REGIONAL ARRANGEMENTS /14/

DRAFT REPORT OF WORKING GROUP II

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CHAPTER I

Review of progress made and problems encountered in regard to trade expansion and integration among the developing countries, including intended future action

9. The discussion of item 14 in the Working Group was introduced by a statement of the representative of the Secretary-General of UNCTAD (TD/II/WG.II/L.3). In the light of the discussions which had already taken place on the subject during the fifth session of the Trade and Development Board (A/6714 Chapter VII)[1] and the documentation prepared by the Secretariat, it was decided, after a preliminary exchange of views, first to review the progress made and problems encountered in regard to trade expansion and integration among the developing countries, including intended future action.

10. The statements that were made reflected the consensus among the developing and the developed countries on the essential role that trade expansion and economic integration among developing countries could play in promoting their economic development. The potential for trade expansion among the developing countries was vast. Although it could not be a substitute for larger trade flows between them and the industrially developed countries, expansion of trade among the developing countries could contribute significantly to reducing the gap between the total imports needed for their accelerated growth and their total export earnings.

1/ Issued as TD/II/WG.II/Conf.Room Paper 2.

11. Trade among developing countries and their regional and sub-regional co-operation could effectively promote in appropriate cases their industrialization, bring about a more rational use of their scarce domestic and external resources, and encourage specialization and productivity within economic groupings. All speakers recognized the limitations imposed on growth by the typically small markets of most individual developing countries. Even the representatives of those developing countries, whose size made them viable economic units, stated their support of and interest in regional integration.

12. In this connexion, it was recognized that the increased competition to which the producers of developing countries would be subjected after trade liberalization on a regional or inter-regional plane would enhance their competitive position in the markets of developed countries. Furthermore, it was recognized by both the developing countries and by some industrialized countries that through the formation of economic groupings the developing countries could strengthen their bargaining position and reduce their economic dependence vis-à-vis the developed world.

13. The debate disclosed the wide range of activities in the field of trade expansion and economic integration now being implemented in the developing regions of the world and the considerable progress made so far. The representative of one developed market economy country regretted that some developing countries in their statements had not been able to be more precise regarding their intended future action in this field. It was also pointed out by some other representatives of developed countries that generally the trade barriers of developing countries had increased during the last decade.

14. While stating their intentions to extend their own efforts to expand trade and economic co-operation among themselves, all the speakers from developing countries endorsed the appropriateness of a gradual approach in this regard. Most of the developed countries agreed with this view. This position underscored the difficulties the developing countries faced, and which frequently made only partial trade liberalization and modest forms of economic co-operation practicable.

15. Although the experience of the developed countries in the field of economic integration and trade expansion was recognized as capable of providing useful lessons to the developing countries, it was generally recognized that special problems tended to arise in the case of the developing countries and that the resulting difficulties were greater than those met with by the developed countries.

16. In the course of debate some of the chief problems identified in this regard by representatives of developing countries and which justified in their view special support by the international community were as follows :

(i) The inadequacy of the physical and commercial infrastructure and the high transport costs in the trade among the developing countries. In this connexion, representatives of regional development banks and of regional Economic Commissions, while stressing their readiness to assist in carrying out surveys and feasibility studies, called for more expertise and financial support to be made available to regional inter-governmental bodies.

(ii) The high protection of production activities resulting from the high rates of customs duty imposed for fiscal and protective reasons in developing countries and their pre-occupation with the maintenance of existing levels of output and employment in the face of eventual trade liberalisation due to already existing extensive underemployment and underutilisation of productive capacity. As a way out of this situation, some suggestions were made. The representative of one developing country called on developing countries to commit themselves, in the first instance, to a specific programme of trade liberalisation involving an across-the-board tariff reduction on a comprehensive basis or on a product-by-product basis, which could later be extended to cover import controls. Certain other speakers supported the abolition of Q.Rs. in trade among developing countries. Another representative of a developing country urged developing countries to grant without discrimination global quotas to products originating in other developing countries and which would increase at a rate to be negotiated.

(iii) The balance-of-payments difficulties which many developing countries were facing, and the need to cushion the possible negative effects on the balance-of-payments situation of some developing countries due to implementation of trade liberalisation programmes. In this regard, a number of representatives of developing countries urged that international support be provided for the establishment of multi-national clearance or other forms of payment arrangements among members of regional groupings and for purposes of promoting inter-regional trade.

(iv) The implications of preferential advantages enjoyed by some developed market economy countries in the markets of some developing countries, which placed even competitive exports of other developing countries at a comparative disadvantage. It was suggested by one representative of a developing country that these preferences should be eliminated altogether. According to another, they could first be extended by developing countries to other potential regional groupings and subsequently to all other developing countries. Another representative of a developing country stated that reverse preferences could be viewed as a counterpart of aid received. He asked whether any developed countries would be ready to provide a similar volume of aid without requiring any counterpart in commercial advantages.

(v) The need for ensuring that the less advanced members of regional groupings receive on a continuing basis an equitable share of the benefits of integration. It was noted that this problem would receive further attention in connexion with item 15 of the agenda.

(vi) The inadequacy of current levels of external participation in the capital of regional and sub-regional banks, particularly since the pre-financing and financing cost of multi-national projects were high.

(vii) The differences in social and economic policies of members of some regional groupings and at times the lack of political will also created difficult obstacles along the path of economic integration. Furthermore, while integration implied an ever closer co-ordination of the development decisions and objectives of member-states, in fact the economic planning in most developing regions was still embryonic and industrialisation programmes of developing countries members of regional groupings were not drawn up within a regional perspective.

17. A number of representatives of developing countries referred, to the absence, for many of their exporters, of non-tariff facilities and advantages available to developed country exporters. On the one hand developed countries were able to provide export credits and credit insurance on better terms and conditions in their trade with developing countries where traditional consumption patterns played in their favour. On the other hand, domestic firms of developing countries often lacked the skill or the means to conduct, vigorous export promotion campaigns, or were financially too weak to take advantage of a larger market.

18. A number of representatives of developing countries also mentioned the urgent need for skilled and experienced personnel to be made available through bilateral or multinational technical assistance and training programmes, particularly in the field of banking, tariff design and commercial policy.

19. Finally, representatives of some developing countries while emphasising the importance of co-operation in the field of trade, marketing and in jointly defending export interest in regard to certain primary commodities, pointed out the usefulness of broadening co-operation to other fields such as joint industrial ventures, jointly financed and jointly operating surface and air transport.

20. Although a large number of representatives recognized the need for a greater exchange of experience on integration and trade expansion between developing countries and for more information to be made available on similar experience of groupings of developed market economy and socialist countries, it was stressed by all speakers that it was for the developing countries themselves to decide on the approach best suited to their particular needs.

21. The representatives of all developed market economy countries who spoke in the debate, while recognizing the efforts made by the developing countries in promoting trade and integration between themselves, stated that much remained to be done and that the initiatives should come from the developing countries themselves. A suggestion was made that in the period between the Second and the Third Conference economically beneficial efforts by the developing countries in the direction should be stepped up. Indeed, such efforts would be in the interests of the developing countries, even if shortages of transferable resources should prevent these efforts from being supported by additional foreign aid.

A representative of a developed market economy country stated that efforts of the developing countries in the field of tariff reductions should aim, on the one hand, at a generally lower tariff barrier which would allow trade flows among these countries to expand and, on the other hand, at the consolidation of regional and sub-regional co-operation, extending to the formation of free trade areas and customs unions.

22. While recognizing that trade expansion and economic integration among developing countries was an essential element in any global strategy of development, some developed country representatives stated that it should not be carried out at the expense of third countries, but should contribute to an expansion of the world economy in general and of world trade, in particular. Other representatives, including one from a socialist country of Eastern Europe, said that groupings of developing countries should not isolate themselves from the world markets but should be outward-looking in nature. Warnings were sounded by the representatives of some developed market economy countries against any possible emergence of a pattern of criss-cross discrimination among the developing countries. Some of them also stated that the smaller and weaker developing countries might find - as was the experience of small developed countries - that the maintenance of the m.f.n. clause in trade among the developing countries might provide them with a desirable safeguard. In this regard another representative of a developing country requested the UNCTAD Secretariat to draw up a code of conduct or procedure to forestall discriminatory practices in the course of implementing trade expansion schemes among developing countries.

23. There was a consensus among the developed countries that the joint efforts of the developing countries could more easily overcome the obstacles encountered by them in expanding trade and cooperation between themselves if they were supported bilaterally or through international institutions. They also recognized that this area provided an excellent opportunity for applying the concept of synchronized action.

24. The representatives of socialist countries of Eastern Europe who participated in the debate considered the expansion of trade and economic integration among the developing countries as a welcome trend and of great importance to their

industrial development, particularly for the smaller among them. Progress in this field would contribute to an improvement in the international division of labour, particularly if it covered a wide set of co-operative measures, including the co-ordination of national plans and industrialization programmes, the establishment of jointly-owned enterprises, and the joint undertaking of large-scale infrastructural projects.

25. All the difficulties and obstacles holding back progress of the developing countries in trade expansion and economic co-operation were ascribed by these representatives to structural problems inherited from the colonial period and to the discriminatory policy practised by closed economic groupings of developed market economy countries. According to these representatives the Conference should aid the developing countries in their efforts at co-operation by proclaiming the right of the newly independent developing countries to receive compensation for the economic damage they had suffered as colonies and to exercise control over the profits earned by foreign companies on their territories.

26. It was pointed out by another representative of a socialist country that the abolition of vertical preferential systems and particularly the reverse preferences in the trade relations between developing and developed market economy countries would constitute a significant act in support of trade and co-operation efforts of developing countries. It was further urged that all economic groupings and particularly those of the developing countries should be open in character.

27. The view was advanced that the experience of economic co-operation within the framework of the Council of Mutual Economic Assistance (CMEA) could be instructive to the progress of economic co-operation among the developing countries because, inter alia, of the wide differences in the initial levels of development of its member countries.